



MEMORANDUM

To: CMAP Board

From: CMAP Staff

Date: January 6, 2016

Re: Alternative Long-Term Funding Options

In November, staff began a discussion with the Board concerning the long-term funding outlook for the agency. Last fall's cash flow crisis, which nearly caused CMAP to shut down, illustrated that relying exclusively on the state to match the agency's federal funding exposes us to significant risk.

At the November meeting, Board members correctly observed that the state had committed to fund CMAP when the agency was created. In January, the Board will discuss how to convince the state to make good on its commitment. However, this approach is not certain to succeed, particularly given the state's fiscal situation and the political climate in Springfield. Staff believes it wise to develop a backup plan which reduces reliance on state funding. The remainder of this memo lays out background research and findings that should be used to develop such a backup plan.

The remainder of this memo:

- Describes results of research on how other regional planning organizations are funded, and how CMAP's predecessors were funded.
- Provides additional context on the long-term funding situation facing CMAP.
- Presents options and considerations for reducing reliance on state funding.

Research results

Comparisons to other regional planning organizations

Other regional organizations that were similar to CMAP were identified for comparison, beginning with the Metropolitan Planning Organization (MPOs) serving the 20 largest metropolitan areas nationwide. From this set, 11 agencies were identified that were similar to CMAP in responsibilities. Several other regional agencies were reviewed but were not relevant for comparison to CMAP, because their scopes were either considerably larger (e.g. the regional

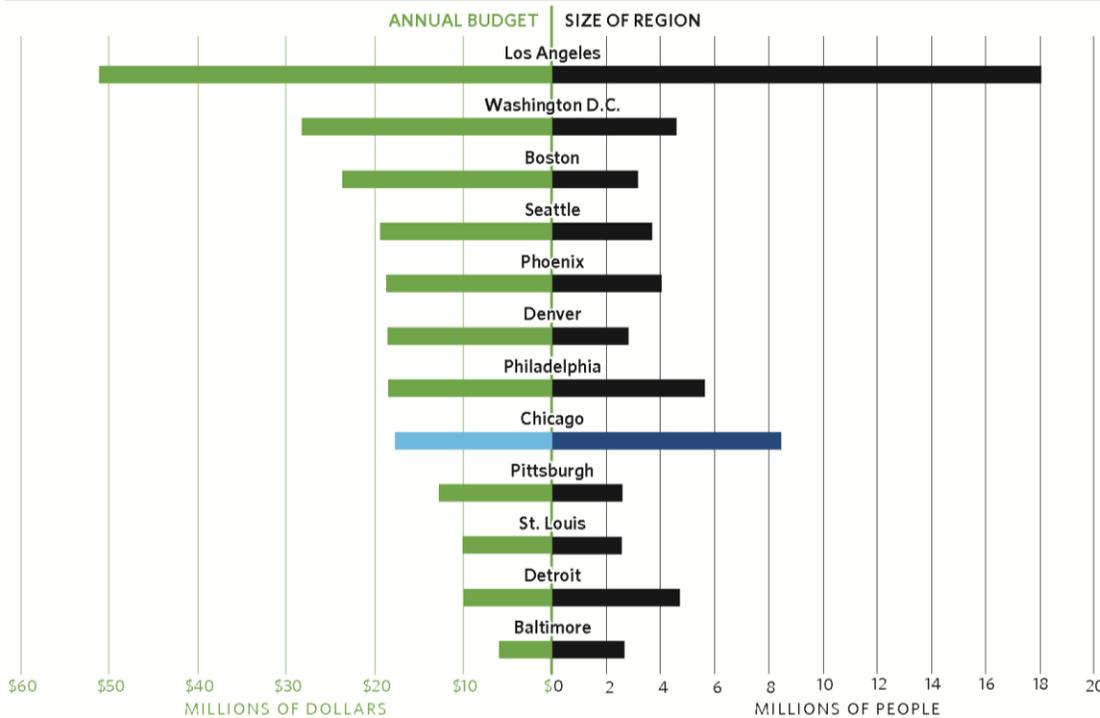
agency in the Twin Cities also operates the transit system) or considerably narrower (e.g. the regional agency in New York is essentially a branch of the state department of transportation). The 11 agencies that are considered relevant to CMAP are those serving the following metropolitan areas:

- Baltimore (Baltimore Metropolitan Council)
- Boston (Metropolitan Area Planning Council / Central Transportation Planning Staff)
- Denver (Denver Region Council of Governments)
- Detroit (Southeast Michigan Council of Governments)
- Los Angeles (Southern California Association of Governments)
- Philadelphia (Delaware Valley Regional Planning Commission)
- Phoenix (Maricopa Association of Governments)
- Pittsburgh (Southwest Pennsylvania Commission)
- Seattle (Puget Sound Regional Council)
- St. Louis (East-West Gateway Council of Governments)
- Washington DC (Metropolitan Washington Council of Governments)

Total budget comparisons

First, the overall size and budget of the peer agencies were compared. Of the 11 agencies, CMAP’s annual budget of approximately \$17.7 million is slightly below average. However, the population served by CMAP, at 8.5 million, is one of the highest, behind only the Los Angeles region. (The New York region is also larger than CMAP’s area, but was not included due to significant differences in MPO function.) A number of peer agencies have larger budgets than CMAP but serve regions that are much smaller.

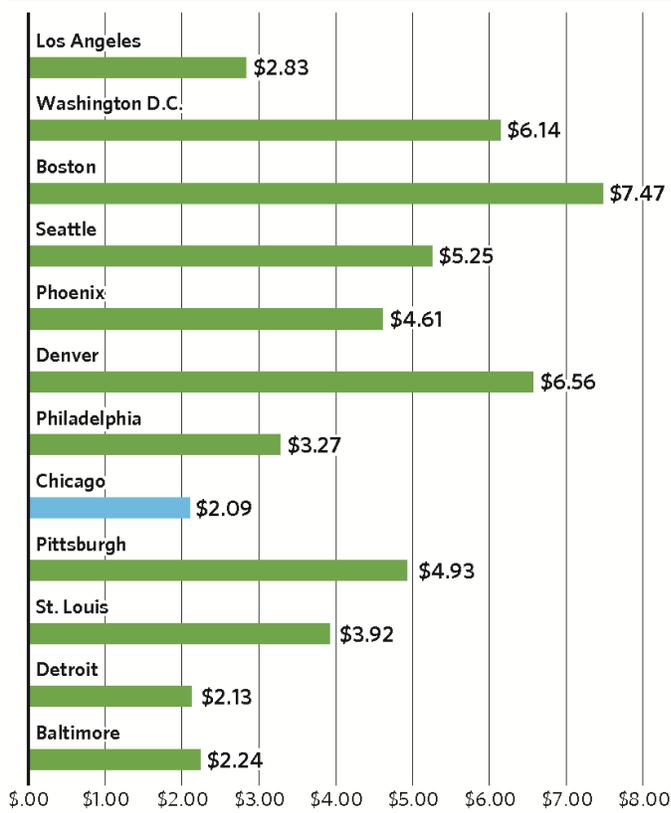
Total budget and region size for CMAP peer organizations



Source: Chicago Metropolitan Agency for Planning analysis, 2016.

In fact, CMAP's budget per population served is lower than any peer agency. With a \$17.7 million budget and population of 8.5 million, CMAP's budget is \$2.09 per resident of the region. In comparison, the average budget among the other peer agencies is \$3.97 per resident. The MPOs serving Detroit and Baltimore are close to CMAP, but not quite as low, with budgets of \$2.13 per resident and \$2.24 per resident, respectively.

Budget per capita for CMAP peer organizations



Source: Chicago Metropolitan Agency for Planning analysis, 2016.

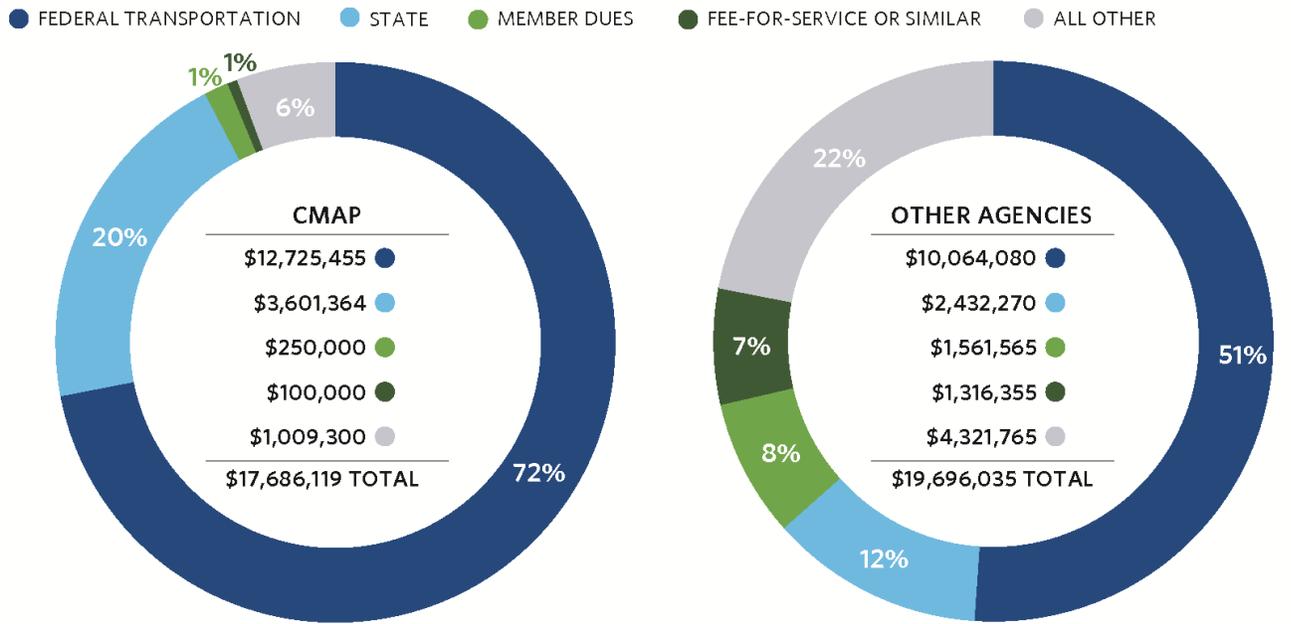
Budget source comparisons

CMAP is primarily funded through federal transportation funds (\$12.7 million, or 72%) and the state (\$3.6 million, or 20%). In other regions, local dues¹ and fee-for-service arrangements² are different methods of raising non-state revenue from agencies that benefit from the activities of the MPO. For CMAP, limited funding comes from local dues (\$250,000, or 1%), and fee-for-service arrangements are limited to local match for LTA projects (\$100,000, or less than 1%), which was initiated in 2015. Approximately \$1 million (6%) is from other grants. In contrast, other regional agencies are far more diversified, with 8% of funding from local dues, 7% from fee-for-service, and 22% from other grants.

¹ Dues are regular, annual revenues from local agencies, assessed by population or a similar method. They are typically assessed from counties, municipalities, and transportation agencies.

² Fee-for-service arrangements involve local match for individual planning efforts, funding for special studies or programs that benefit multiple jurisdictions, and similar activities.

Source of funding as percent of budget for CMAP peer organizations

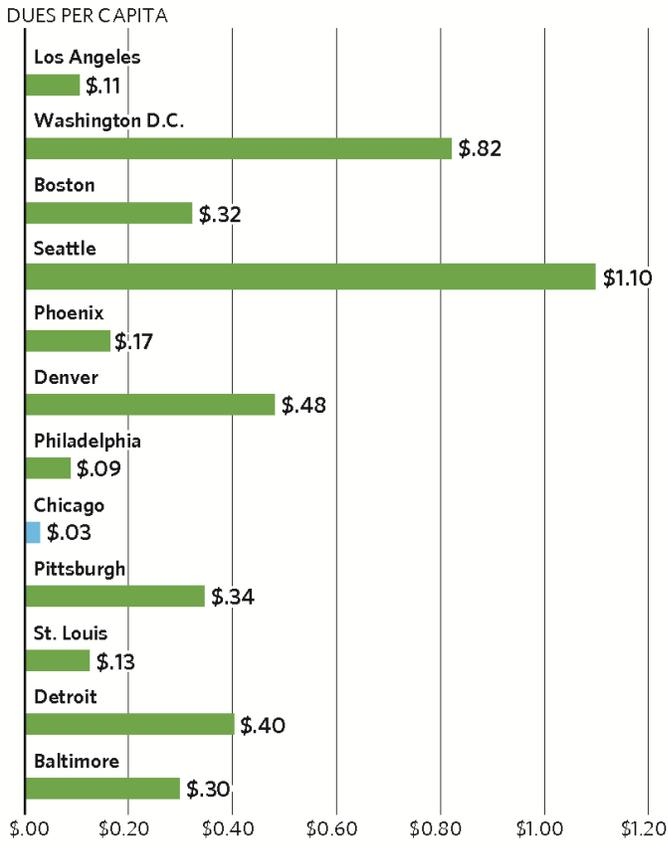


Source: Chicago Metropolitan Agency for Planning analysis, 2016.

Many other MPOs have greater reliance on external competitive grants than CMAP. This is not universal, but it provides a useful comparison when evaluating CMAP’s external grantseeking. Over the past several years, external fundraising has been focused on the LTA program, with a target of \$1 million per year. With more aggressive grantseeking, this figure can increase and also support activities beyond LTA. However, external grants are not likely to be suitable to provide the local match for federal transportation funds -- our most immediate need. State and local funds remain the most viable means to match federal transportation funds.

Peer agencies, including CMAP, raise some funds through member dues and fee-for-service arrangements. CMAP receives less from these two forms of funding -- \$350,000 annually, making up 2% of its annual budget -- than any peer agency. Fee-for-service arrangements across agencies vary greatly, and not all agencies use this funding source. However, local dues are more easily compared. As noted above, CMAP’s level of local dues lower than any peer agency, at \$250,000 annually. This is also the lowest per-capita local dues, at \$0.03 per resident; the average of the peer agencies examined is \$0.32 per capita.

Local dues per capita for CMAP peer organizations



Source: Chicago Metropolitan Agency for Planning analysis, 2016.

Comparisons to other Illinois MPOs

CMAP is by far the largest MPO in Illinois, and one of the few that function as an independent organization. Three other MPOs are similar in structure and function -- those in the metropolitan areas of St. Louis (East-West Gateway Council of Governments, already included above), the quad cities (Bi-State Regional Commission), and Rockford (Rockford Metropolitan Agency for Planning). Others are housed within and often partially supported by local governments, making their budgets not directly comparable to CMAP's.

Among the three similar MPOs -- in St. Louis, Quad Cities, and Rockford -- CMAP again stands out in its budget structure. Each other MPO charges local dues, at a rate of \$0.12½ per capita in St. Louis and approximately \$0.50 per capita in the Quad Cities and Rockford (compared to \$0.03 for CMAP). Local dues and fee-for-service arrangements make up 7% of the budget in St. Louis, 20% in the Quad Cities, and nearly 15% in Rockford (compared to 2% for CMAP). While each of these organizations does also receive funding from IDOT, their local revenues make them far less reliant on state funding than CMAP.

Historical funding levels

Prior to CMAP's formation, our predecessor agencies, CATS and NIPC, collected local dues at a higher rate than CMAP currently does, and these were particularly important to NIPC's budget. Local dues were reduced significantly upon CMAP's formation, reflecting the commitment of the state to support CMAP through the Comprehensive Regional Planning Fund, which was created in October 2007. Unfortunately, this dedicated fund was dissolved shortly after its

creation. As noted earlier, a high legislative priority for this year in Springfield will be the restoration of that fund, but this is not guaranteed to succeed.

The historical dues structure, as of 2006, is shown below. Over \$1 million in local dues made up the budgets of NIPC and CATS, compared to only \$250,000 currently. Please note that Kendall County was not yet part of the metropolitan area in 2006, so did not have any dues.

Historical dues structure				
	NIPC, 2006	CATS, 2006	Total, 2006	Current, 2014*
Cook	\$167,279	\$40,000	\$207,279	\$25,000
DuPage	\$59,634	\$10,000	\$69,634	\$25,000
Kane	\$19,996	\$4,500	\$24,496	\$25,000
Kendall			\$0	\$25,000
Lake	\$61,993	\$6,250	\$68,243	\$25,000
McHenry	\$17,401	\$500	\$17,901	\$25,000
Will	\$33,950	\$5,000	\$38,950	\$25,000
Suburban municipalities	\$325,000		\$325,000	\$50,000
City of Chicago	\$133,831	\$40,000	\$173,831	\$25,000
Regional Transportation Authority	\$42,000		\$42,000	\$25,000
CTA		\$10,000	\$10,000	\$25,000
Metra			\$0	\$25,000
Pace			\$0	\$25,000
Illinois State Toll Highway Authority	\$15,513	\$10,000	\$25,513	\$25,000
Total:	\$876,596	\$126,250	\$1,002,846	\$375,000*

* This amount is the invoiced amount, but contributions are voluntary; approximately \$250,000 is actually collected.

Conclusions

To summarize the above analysis:

- CMAP's overall budget is lower than its peers, meaning that CMAP provides its services more efficiently than other comparable regional agencies.
- The low reliance of the agency on local funding is unusual. No other comparable agency, either nationwide or within Illinois, has such a low reliance on local funding. CMAP is unique in relying nearly entirely on the state for its local match.
- Many other comparable agencies are more aggressive at seeking competitive grants. While CMAP should pursue these more actively, these sources are typically not appropriate to provide the required local match for federal transportation funds.

- CMAP's predecessor agencies -- NIPC and CATS -- had significantly larger shares of local funding in their budget than our agency currently does.

Context

It is worth re-emphasizing the purpose of this analysis. In fall 2015, due to the lack of a state budget, CMAP faced a cash-flow crisis that nearly resulted in its shutdown. This outcome was averted through action by FHWA and FTA -- historically unprecedented in the U.S. -- to temporarily provide funding directly to our agency. While all MPOs in Illinois faced the same state budget situation, CMAP was the only one that experienced a crippling cash flow crisis. The reason for this is simple: CMAP relies on state funding to a larger degree than other MPOs. Other agencies were able to use local funding sources to keep them solvent, but CMAP, with minimal local funds, had no other revenue source to turn to.

While the immediate crisis has been addressed, longer-term problems continue. CMAP is receiving its federal funding, but the state match is unavailable due to the lack of a state budget. This means that for every dollar expended by CMAP, only 80 cents is recouped. CMAP continues to delay payments to its vendors, and its fiscal situation will worsen until the state budget is passed. If future state budgets are similarly delayed, even direct payments from the federal government will not be sufficient to keep the agency operational, because the federal funding cannot be used without a local match to support it.

Further, it is uncertain whether this year's budget -- or future budgets -- will include the same level of support for CMAP that has previously been enjoyed. The state has serious and far-reaching fiscal problems and will certainly be looking for every opportunity to reduce its spending. The state's current contributions to CMAP are not required by law but are made voluntarily each year by IDOT. It is imprudent to assume these will continue, given the atmosphere of budget reduction at the state level.

CMAP is pursuing a variety of different approaches to provide solutions to our funding issues.

- The ideal solution is to create a program like FUND 2040, an infrastructure fund made up of regionally-generated revenue that would also include operational funding for CMAP. This is the "Plan A," or preferred option. However, it is quite politically challenging and cannot be relied upon to succeed.
- A second option, "Plan B," is to replenish the state's Regional Comprehensive Planning Fund to provide a continuing appropriation for CMAP and the state's other MPOs to support their operations. This is highly desirable but also not guaranteed, particularly since CMAP has consistently but unsuccessfully advocated for it over the past five years. A similar option would be to receive operational funding through an upcoming capital bill, though this would be a short-term solution rather than permanent. The Board will be asked to further discuss these options as part of a separate memo in January.
- Finally, "Plan C" should be put into place if the first two options fail. This is the backup option, and should include activities that are fully within the control of the CMAP Board. Described further in the following pages, Plan C includes a combination of more

aggressive external fundraising, increased local contributions, and increased use of fee-for-service arrangements.

Discussion of “Plan C” options

As noted above, “Plan C” is meant to be put into place to begin FY17 if the first two options are unsuccessful prior to June 30, 2016. This does not rely on any action by the state, but it can be implemented at the direction of the CMAP Board. Several potential elements of this option -- particularly those that call for local contributions, either as dues or as fee-for-service -- will be unpopular. However, if CMAP does not find a supplementary local match source beyond the state, an eventual shutdown is a real possibility.

The “Plan C” scenario does not exempt the state from its responsibility to provide at least some funding for CMAP. Some level of state contribution will remain necessary for the agency to remain functional. The options discussed in this memo are meant to *reduce* reliance on state funding, not eliminate it entirely.

Potential elements of “Plan C” include local dues, fee-for-service, and external grants. It is likely that the solution will involve a combination of all of these elements. This memo does not present a full proposal, proposed distribution, or total amount, as that would be premature at this stage. However, it does lay out some concepts for discussion. The Board’s discussion in January will guide the development of a full proposal in the following months.

Local dues

As described earlier in this memo, peer agencies, both within Illinois and nationwide, raise a share of their budgets through local dues. CMAP’s current local dues are the lowest of any MPO examined, and are below the dues collected by CATS and NIPC. A central part of any funding strategy would logically include the raising of these rates.

Nationally and across Illinois, responsibility for paying local dues varies. Generally, counties have responsibility; in many cases, municipalities do as well, and in a few cases, transit agencies and other transportation providers also contribute. These are likely the most realistic groups to pay local dues for CMAP, and are the groups that historically funded NIPC and CATS as well.

This memo does not propose a target or a distribution for local dues. However, staff asks that the Board to discuss some concepts that could inform a future distribution proposal. Some potential concepts -- included here for discussion -- include:

- The agencies that appoint members to CMAP’s governing boards -- both the Board and the MPO -- are ultimately those that drive CMAP’s policy and direction. As these agencies govern CMAP’s work, it could be argued that they should also support its operations.
- Most other MPOs assess dues to counties and municipalities based on population, tax base, or similar methods, so agencies with larger budgets have higher levels of dues. This can provide a clear way to divide responsibility for dues in a way that is logical and understandable.

- One of the CMAP's basic responsibilities is to administer federal transportation funds. In the event that CMAP shuts down, the agencies that use federal funding would be the most directly affected, so they have an interest in ensuring that CMAP remains solvent. Thus, it could be argued that agencies that use or benefit from federal transportation funding should be responsible for paying local dues.
- Local dues should be mandatory rather than voluntary. But CMAP has no authority to legally compel another organization to pay dues, and state action to give it such authority is unlikely. In other words, CMAP needs its own enforcement mechanism. The primary way that CMAP could require dues is by withholding services from organizations that do not pay their dues -- again reinforcing the concept that the organizations that benefit from CMAP should support it. Agencies that do not rely on CMAP for funding or other assistance would have little incentive to pay dues.
- The practicality of invoicing and collection should be considered. Individual dues contributions from individual municipalities can be administratively burdensome, both to CMAP and to the communities, for what is ultimately a small amount of money. It may be more efficient for CMAP to work through the Councils of Mayors on dues collection than directly with all 284 municipalities.
- Some consideration should be given to the level of dues paid to CATS and NIPC before CMAP was formed, as well as the level of dues assessed by CMAP currently. Agencies that contributed funding higher levels of funding in the past may be willing to contribute those amounts again.
- Local dues are best suited to support CMAP activities that benefit the region broadly -- like preparing the long-range plan, maintaining the regional transportation model and necessary data, administering the TIP, conducting public outreach, and similar work. Programs that directly affect specific agencies are better suited to be supported through fee-for-service arrangements, as noted below.

Fee-for-service arrangements

Many MPOs, but not all, receive funding through fee-for-service arrangements, in which recipients of MPO services are asked to pay a share of the costs. Unlike dues, which are assessed at a consistent level every year and support basic agency functions, fee-for-service varies by year, as it is tied to specific projects. It is best assessed for activities that have a specific beneficiary.

CMAP's experience with fee-for-service is limited to the LTA program, which began to require local contributions in 2015. These contributions vary between 5% and 20% of total project cost (with a few projects that meet certain criteria provided at no cost), with an average contribution of 10% of project cost. If the LTA program continues at its current pace, the LTA local contributions can be expected to total \$200,000 to \$250,000 per year. While contribution rates could be increased to some degree, the sliding scale was specifically designed to allow the participation of lower-capacity communities, which is important to continue.

Other CMAP activities with specific beneficiaries include programming of CMAQ and TAP funding. The project selection and administration of these programs requires staff time, which the sponsors of successful projects could be asked to help to fund. CMAP also provides modeling and data assistance on a regular basis to support transportation studies by implementers, at no cost; this could also be a reasonable opportunity for fee-for-service.

Other possible fee-for-service arrangements certainly exist as well. For example, CMAP could increase the cost of trainings or begin to charge for training opportunities that are currently free, although this would not raise a large amount of funding. However, it should also be remembered that CMAP is a public agency, so it may not be appropriate to charge for every potential activity (for example, charging to download publications or data is not recommended). Other ideas will be sought from the Board and committees.

External grantseeking

In addition to local dues and fee-for-service arrangements, a realistic “Plan C” should also include increased pursuit of external funding. Over the past several years, CMAP has averaged \$1 million annually in external grants received to support topics such as housing, economic development, watershed planning, water supply, and stormwater and resilience. This amount is less than most other regional agencies, meaning that CMAP likely has room for additional external fundraising. Staff is now working on a strategic plan to identify topics and potential sources to increase external funding beyond \$1 million annually.

It must be emphasized again, however, that external sources (most likely, federal or philanthropic grants) are very unlikely to be significant components of a local match. While these should be important contributors to the agency’s budget, they do not remove the need for local funds to match federal funds and reduce reliance on the state.

Conclusions

To reduce reliance on state funding, staff recommends developing and proposing a “Plan C” funding package consisting of increases in local dues, fee-for-service arrangements, and external grants. Board reaction and discussion of each of these elements is requested. Such a package would need to be put in place by July 1, assuming Plans A and B are not successful in the same time frame.

ACTION REQUESTED: Discussion

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